
Security Assistance and National Security in the Global Economy

By

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The fundamental purpose of the United States security assistance program is to promote United States foreign policy and national security interests. During the Cold War U.S. security assistance programs revolved around the need to contain the Soviet Union. To this end, American security assistance programs provided military training, economic aid and military equipment to foster relations with countries seen by U.S. policy makers as essential to success in the fight against Communism. The necessity during the Cold War of a large military build up of U.S. forces and the need to support and win allies abroad created what is known today as the military-industrial complex. A strong military-industrial complex was properly viewed during the Cold War as vital to U.S. success in containing the mammoth forces of the Soviet Union, and, if necessary, to defeating Communist forces on the battlefield.

The fall of the Berlin Wall signified the end of the Cold War and a massive downsizing of the U.S. military. This downsizing was put on temporary hold with the August 2, 1991, invasion of Kuwait by Iraq, and the ensuing Gulf War. Even the swift and decisive victory in the Gulf War could not stave off the inevitable shrinking of the U.S. military. Shortly after the conclusion of the Gulf War the U.S. military began efforts to downsize by 25 percent, a reduction that created concern among defense contractors and government officials. Defense contractors were faced with impending declines in profits due to decreased Department of Defense procurement. Large investments in capital equipment intended to meet Cold War production requirements were no longer needed, forcing contractors to either seek new markets or close production facilities. The central issue from a defense department perspective was the potential for negative impacts on future readiness resulting from reduced defense spending and the corresponding contraction of the industrial base. Such a contraction in could hinder the industry's ability to respond to future defense needs. With the threat of large decreases in U.S. military procurement, industry began seeking more aggressively to find buyers for U.S. arms overseas and lobbying the U.S. government for assistance in entering foreign markets. The government, in turn, sought means to maintain the necessary defense industrial base while, at the same time, reducing procurement to meet force structure needs.

After the fall of the Soviet Union and the successful completion of the Cold War, the Bush administration increased foreign arms sales dramatically. Foreign Military Sales (FMS) agreements increased from a FY 1990 total of \$14.2 billion to \$23.5 billion in FY 1991. Michael Cox, in a dissertation to The Royal Institute of International Affairs, contends that President Bush viewed the world as a geopolitical puzzle.¹ Security assistance in the Bush Administration revolved around establishing and maintaining balances of power acceptable to the United States in regions vital to U.S. national interests. The conclusion of the Gulf War left a defeated, but still relatively strong, Iraq. Sadaam Hussein managed to salvage key elements of his offensive capability, specifically the Republican Guard, and possessed the capability to threaten his neighbors even in the aftermath of the coalition victory. The vast increase in FMS agreements following the Gulf War can be attributed to the administration's perceived need to arm Iraq's

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neighbors to establish a policy of containment of Iraq. The Gulf War validated the quality and effectiveness of U.S. weaponry, resulting in a large demand for advanced U.S. arms.

The increase in Foreign Military Sales (FMS) agreements resulted in a much-needed infusion of orders into the U.S. defense industry. The final year of the Bush administration was marred by a global economic recession that impacted tens of thousands of American workers who were laid off or released as a result of corporate downsizing. The defense industry was particularly vulnerable due to the reduction in procurement by the U.S. military. The economic crisis, as well as numerous other domestic issues, ultimately cost Bush a second term in office. The departure of Bush from office signified a departure of Cold War strategy in U.S. security assistance policy. The new world view would be a geo-economic view instead of a geopolitical view.

President Clinton came into office with a different view of the international community. This view was not centered on traditional geopolitical view of balance of power relationships, but on economic globalism. This geo-economic outlook necessarily defines the administration's views on national security and foreign policy. In the words of William Reinsch, the U.S. Undersecretary for Export Administration, "The president believes that national security is directly related to economic security."² The Clinton administration's focus on domestic issues has often been cited as evidence of a lack of direction in foreign policy. This is not the case. The Clinton administration's foreign policy reflects the belief that strengthening the U.S. economy is a primary concern and is a key to pursuing national security objectives. The Clinton policy on arms transfers clearly states that "The impact on U.S. industry and the industrial base" will be considered when approving arms transfers. This consideration was not a written consideration in the policies of Reagan or Bush, and emphasizes the differing philosophies of the pre-Cold War and post-Cold War strategies.

The increased focus on the economic impacts of arms transfers on U.S. industry and the economy raises questions of the validity of such policy. How much positive impact does the arms trade have on the U.S. economy and preserving the defense industrial base? Should economic considerations be a part of the decision-making process on conventional arms transfers? This paper will explore the impacts foreign military sales have on the defense industrial base and the U.S. economy and attempt to answer these questions.

The Economic Impacts of FMS

The economic impact of foreign military sales on the economy in the United States is diverse. On a national level, exports from the international arms trade do not comprise a significant portion of U.S. exports. Thus, it is difficult to imagine, on a national scale, that revenues from FMS cases contribute significantly to the national economy if we measure such contributions solely in dollar amounts. However, FMS cases may contribute in other ways, particularly in maintaining U.S. leadership in specific industries. John W. Douglas, the president of the Aerospace Industries Association, reported that defense exports made up 17 percent of the aerospace industry's total overseas sales in the second quarter of 1998.³ Without defense exports, the U.S. leadership in the international aerospace industry would be seriously compromised.

This danger is evident in the growing importance of "dual use" technology available in modern weapons systems. An example of the impact of dual use technology on commercial aerospace sales is Boeing's difficulty in receiving export licenses to sell the civilian version of the C-17, the MD-17. Even though Boeing claims the MD-17 will lack much of the C-17's avionics

and military capabilities, the Pentagon is still concerned that basic capabilities of the aircraft will provide countries with advanced military capabilities. Specifically, the MD-17's cargo capacity, range and the ability to land on shortened runways, would give potential buyers significant power projection capabilities.⁴

The importance of aerospace exports to the U.S. economy is reflected in the \$50 billion in aerospace exports in 1997, which reduced the U.S. trade deficit by 18%.⁵ Aerospace exports posted the largest surplus, \$32 billion, of all industry segments. Without aerospace exports, the U.S. trade deficit would have mounted to \$214 billion in 1997. It is clear the U.S. cannot afford to allow foreign competition to usurp its leading role in the aerospace industry. FMS cases provide the U.S. aerospace companies a competitive edge in the global industry.

The impact of the international arms trade is apparent in local and regional economies in the U.S. that are heavily involved in defense industries. In 1996 RAND's National Defense Research Institute estimated that FMS sales accounted for approximately 300,000 jobs throughout the United States. Out of these, 200,000 jobs were directly involved in the international arms trade, and another 100,000 were indirectly involved.⁶ While a layoff of several thousands, or even tens of thousands, of workers hardly impacts the economy on a national scale, such a layoff could significantly impact a local economy that is heavily involved in defense industries. Foreign military sales become increasingly important to such communities as U.S. defense procurement of weapons systems declines and foreign buyers become the primary procurement source for these systems. The F-15 Eagle and the M1 Abrams tank are systems which the United States military no longer procures. Foreign military sales account for 100% of new procurement of these weapons systems. Communities such as Lima, Ohio, where General Dynamics produces and upgrades M1 tanks, are heavily reliant on foreign contracts. A recent agreement between the U.S. Army and General Dynamics to extend conversion of the M1 tank to the high tech M1A2 main battle tank will preserve an estimated 22,000 jobs nationwide, the bulk being in Lima. The motivation for the upgrade extension appears to be the desire to keep "...the production line warm in anticipation of the foreign sales, sending a signal to potential overseas customers that the Army is committed to the Abrams program."⁷ The U.S. Army has not purchased a new tank from General Dynamics since 1993, forcing the company to rely on tank upgrades and foreign military sales to maintain the production line. During the period of April 1993 to July 1994 General Dynamics Land Division produced M1A1 tanks solely for Kuwait and Saudi Arabia. Without such orders, the Lima production line, as well as other plants in New York, Pennsylvania and Michigan, would have been forced to shut down, seriously damaging the local economies.

The impact of closing down major defense production lines impacts the local economy in several ways. Statistics show that defense workers who become unemployed remain unemployed significantly longer than workers in other sectors. This can be attributed to the highly specialized skills defense production line workers possess. These skills are not easily translated into other, non-defense related, industries. The effects of such unemployment are long term stagnation in the economy resulting from long term increases in the local unemployment rate. Closing a major production line has a secondary effect on non-defense related industries in a local economy. This secondary effect, or multiplier effect, results from the goods and services that factory workers consume within the local economy. This consumption serves to fuel the economy, allowing it to expand. Conversely, when a major defense production line closes down, the multiplier effect works in reverse as defense workers become unemployed and reduce consumption or relocate to other communities. Obviously the effects of unemployment are directly related to the multiplier effect, and the larger percentage of defense worker population relative to the total population will

determine the severity of the consequences of closing, or drastically downsizing, a defense industry line of production.

Economic Impact on National Security

Globalization of the world economy has led to the realization that the health of the economy is directly related to national security. Economic globalization poses both direct and subtle challenges to the U.S. The direct threats to national security are, among others, possible eroding of the defense industrial base, loss of technological skills necessary to the defense of the country and the migration of key defense industries overseas. Each of these issues directly affects the nation's ability to produce, provide and maintain equipment and services vital to U.S. national defense during times of unexpected crisis. Other more subtle threats to national security include increasing trade deficits and accumulation of the national debt by foreign governments. While these are macroeconomic issues that do not directly impact national defense, they do have long-term impacts on national security. The general weakening of the U.S. economy deteriorates our ability to fund needed defense articles in peacetime and allows increasing foreign control over U.S. industry.

Over the last three decades foreigners have accumulated over \$1 trillion. This sum is more than our current money supply in the U.S. Foreign interests have used this money to purchase large chunks of property and industry in America. The recent acquisition of Chrysler by Daimler-Benz is an example of foreign acquisition of a major interest in heavy industry. U.S. financial institutions are also being acquired by foreign concerns. The banking industry is vital to the U.S. economy. Approximately 20% of all banking assets in the U.S. are owned by foreign concerns.⁸ Strong foreign control of America's money supply places the U.S. at an economic disadvantage in the global economy. The automobile industry and the banking industry are only two examples of vital U.S. industries that are increasingly controlled by foreign concerns. The trend of foreign ownership of vital industry within the United States is a threat to national security in the long run. In a global economy, economic strength and control of vital industries is as important as military power. Indeed, the U.S. military is reliant upon a sound economy for maintenance and procurement of the modern technology and training that allow it to maintain dominance, over potential adversaries. In order to ensure future dominance the United States must take actions to enable vital U.S. industries to survive and compete in the global arena. This is particularly true of industries vital to the defense industrial base.

Keeping open vital lines of production is an important contribution of FMS to preserving defense industrial capabilities. Production line closures could potentially result in the loss of specific technological and production capabilities, at least in the short term. The result is a decrease in defense capability and readiness. Modern production lines cannot "ramp up" in very short periods of time, as they did during World War II, in response to international threats. The technological sophistication of modern weaponry prohibits the establishment, or re-establishment, of major lines of production in the short term. The time required to research, test, and produce major defense systems is measured in decades. Likewise, production facilities and equipment for modern military defense systems are specialized, and require significant time to design and procure.

Defense industry workers, to include production facility workers, technicians and scientists, possess very specialized skills that are not readily transferable from non-defense industries. *Maintaining Future Military Aircraft Design Capabilities*, a RAND report compiled in 1992,

addresses the issue of the threat to maintaining necessary skills to design and build military aircraft by stating, "We believe that the declining experience base of aircraft design teams poses a serious threat to U.S. defense capability..."⁹ This argument also applies to other high-tech military weapons systems, and extends to not only design engineers, but production facility workers as well. The exit of experienced engineers, scientists and skilled laborers cannot be easily or quickly replaced during a crisis. Maintenance of defense industrial base related skills can only be maintained through continuing design and production activities.

Foreign military sales are playing an ever-increasing role in maintaining production lines. Historically foreign military sales have been based on providing existing weapons systems currently in the Department of Defense's inventory. It will be interesting to see whether, as the defense procurement budget continues to shrink, the U.S. government allows firms to design and build new weapons systems specifically for export. As remote as this possibility may seem, Boeing is skirting the edge of this new territory with its design of the Harpoon Block II. This new version of the Harpoon anti-ship missile, the mainstay of the U.S. Navy's anti-surface warfare capability, will be targeted at foreign markets. Boeing is developing the missile with its own funds. The Harpoon Block II will possess a land attack capability, as well as increased accuracy for anti-ship warfare.¹⁰ The U.S. Navy has no plans to purchase the new version, as it already possesses land attack cruise missile capabilities in the Tomahawk Land Attack Missile (TLAM) as well as the Standoff Land Attack Missile (SLAM). The Harpoon Block II program, if successful, may become a new model for weapons system development in foreign military sales. Taken one step further, defense contractors could possibly develop entirely new weapons systems for foreign military sales. This approach could provide relief to defense contractors in the face of decreasing U.S. procurement.

Conclusion: So Is It Really Worth It?

Reform within the defense industry and the Department of Defense will be necessary to combat future defense challenges. The challenges facing national defense and defense industrial complex cannot entirely be solved through FMS. However, defense exports will continue to be a major player in ensuring that the United States retains the skills and facilities to research and produce advanced weapons which are necessary to the nation's defense. FMS will enable vital defense lines of production, such as the M1 Abrams and F-15 Eagle, to remain open. In doing so, vital skilled defense workers will be retained and facilities will remain open and sustain the ability for additional production as unforeseen needs arise. Furthermore, in maintaining production facilities, FMS fuels local economies by providing thousands of jobs and associated consumer markets. Also, when FMS purchases are procured alongside U.S. defense purchases of the same weapons system, the U.S. military benefits from a reduction in price per unit resulting from volume purchases.

Foreign military sales, when conducted responsibly, serve best interest of the United States. Without defense exports, the United States would be forced to close production facilities of key defense systems, which would negatively impact both readiness and the economy. Local economies would be devastated in many cases by the closure of key defense production lines, the U.S. would lose its leadership position in key industries, such as aviation, and the Department of Defense would lose key weapons systems vital to the force structure. The national security of the United States would suffer both economically and militarily without the prudent conduct of foreign military sales arms transfers.

End Notes

¹Michael Cox, *U.S. Foreign Policy after the Cold War* (London: Wellington House, 1995), p. 24.

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³John W. Douglas, Remarks to the National Aviation Club [as prepared for delivery] given September 1, 1998, Aerospace Industries Association world wide web site.

⁴"Boeing Quest to Export Civilian C-17 Stalled," *Defense Week*, Tuesday, September 8, 1998, P.5

⁵John W. Douglas, "1998 Year-end Review and 1999 Forecast," Aerospace Research Center.

⁶Marcy Agmon, James L. Bonomo, etc., *Arms Proliferation Policy: Support to the Presidential Advisory Board*, RAND International Defense Research Institute, 1996

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⁸Stephen L. Slavin, *Economics* 4th Edition (New York: Irwin McGraw-Hill, 1996) p. 794.

⁹Jeffery A. Drezner, Giles K. Smith, etc., *Maintaining Future Military Aircraft Design Capabilities*, RAND International Defense Research Institute, 1992, p.ix.

¹⁰John Donnelly, "Boeing, Hoping For Foreign Sales, Spears New Harpoon Deal," *Defense Week*, November 23, 1998, p.2.

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LTJG Christopher Akins enlisted in the Navy in 1989 and served as a Cryptologic Technician, Interpretive (Russian language) in Japan. He received an appointment to the United States Naval Academy and graduated May 1995 as a Surface Warfare Officer. His first tour as a Navy officer was as Communications Officer onboard USS Underwood (FFG 36) in Mayport, Florida. Currently, LTJG Akins is an instructor at the Defense Institute of Security Assistance Management.